



Auditor of Public Accounts
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Edelen Releases Audit of Marshall County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Marshall County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

- **The Fiscal Court lacks adequate segregation of duties over receipts**

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the county's assets and ensure accurate financial reporting.

Condition: The treasurer posts to the receipts ledger, prepares bank deposits, prepares bank reconciliations, and prepares financial reports. In addition, the occupational tax administrator posts occupational tax collections to the occupational tax subsidiary ledger and prepares bank deposits.

Cause: The fiscal court's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the cash collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend the county continue to review their policies and procedures to identify ways in which segregation of duties could be improved. Specifically the following procedures could be implemented to strengthen the internal control process:

- An independent person should be responsible for opening the mail and listing all receipts. The employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. Occupational tax returns should be stamped with the date received. This list should be agreed to the Treasurer's receipts ledger and the bank deposit slip. The person should initial the listing to document their review in comparison to the receipts ledger and bank deposit slip.
- An independent person, such as the Judge/Executive, should open bank statements and review them for unusual items, such as debit memos and overdraft charges. The person should initial the bank statement to document their review.
- An independent person, such as the Judge/Executive, should review the Treasurer's bank reconciliations for accuracy and timeliness. The person should initial the bank reconciliation to document their review.

County judge-executive's response: We will take recommendations into consideration and implement changes where we feel both internal controls and time management would be improved. Bank statements are now received by the county treasurer and the county judge/executive (by email) as well as being submitted along with the treasurer's report for fiscal court review and approval.

- **The Fiscal Court should strengthen controls over employee timesheets and recordkeeping**

Criteria: According to KRS 337.320, "Every employer shall keep a record of. . . the hours worked each day and each week by each employee." Good internal controls dictate that all timesheets be signed by employees and have supervisory approval.

Condition: During our testing of payroll, we noted 14 instances of time sheets that were not signed by the employee and/or supervisor. We also identified two instances where time cards were not maintained by salaried employees. Additionally, we noted that the finance officer and the treasurer do not receive information pertaining to the departmental vacation and sick time records for a majority of the fiscal year.

Cause: It appears that the lack of signatures on timesheets was caused by administrative oversights. With regards to the lack of communication of sick and vacation time records, the fiscal court did not have a policy for a majority of the fiscal year to mandate each department to provide sick and vacation time records to the finance officer and/or the treasurer. We did note however, that this situation was rectified in the last quarter of the fiscal year.

Effect or Potential Effect: The county is not in compliance with KRS 337.320. Further, the fiscal court was unable to monitor compliance with vacation and sick time policies due to the lack of communication from departments.

Recommendation: In order to strengthen internal controls over payroll and ensure compliance with KRS 337.320, we recommend that the finance officer and/or treasurer ensure that the employee and employee's supervisor have signed the timesheet prior to processing payroll. All employees, with exception of elected officials, should be required to maintain a time sheet. In addition, we recommend that each department continue to submit sick and vacation time records to the finance officer and/or treasurer on a periodic basis.

County Judge/Executive's Response: *Employees and supervisors have been reminded of the importance of signing all payroll time records. In addition, we require departments to disclose sick and vacation time records to the treasurer's office on a monthly basis.*

- **The Fiscal Court has a deficit of \$240,756 in the payroll revolving account**

Criteria: The Department for Local Government's budget manual states that the treasurer should only countersign checks when sufficient fund balance and adequate cash is in the bank to cover the check.

Condition: During our analysis of the year-end payroll revolving account reconciliation, we noted that there was a deficit balance of \$240,756 after taking into consideration payroll liabilities.

Cause: The Fiscal Court pays the sheriff's payroll directly from the payroll revolving account even if there are insufficient funds in the account to cover the sheriff's payroll costs. The sheriff submits payroll bi-weekly to the treasurer to process but does not always provide adequate funds to cover the cost of the payroll expenses. Historically, the sheriff submits partial reimbursements throughout the year to cover prior payroll expenses, which are deposited directly to the payroll revolving account.

Effect or Potential Effect: The fiscal court is utilizing cash from other funds of the county in order to cover current period cash outflows for the sheriff's payroll. During fiscal year 2011, it was noted that \$600,000 was transferred from the occupational tax administrator fund to the payroll revolving account in order to prevent a deficit fund balance in the account. Of the \$600,000 transferred to the payroll account, only \$300,000 was transferred back to the occupational tax administrator fund from the payroll revolving account. Further, the sheriff's payroll expenses and the related reimbursements are not being reflected within the fiscal court's financial statements.

Recommendation: We recommend that the fiscal court require the sheriff to provide the county with adequate funds prior to processing the payroll of the sheriff's office. Amounts transferred from other funds to the payroll revolving account should be transferred back prior to the end of the fiscal year. Alternatively, we recommend that the county incorporate the sheriff's payroll expenses within the budget of the general fund or require the sheriff to "fee pool" whereby the fiscal court would pay all of the sheriff's operating expenses and the sheriff would remit excess fees monthly rather than at year-end.

County Judge/Executive's Response: We will advise the fiscal court of these recommendations and ask them to take it into serious consideration.

- **The county does not have a policy or procedure to match jail fund cash receipts to invoices.**

Criteria: The county should have a policy and procedure to ensure that cash receipts are matched to amounts billed to ensure that all amounts billed are collected in full.

Condition: The jailer is responsible for creating and sending bills to relevant third parties. The treasurer receives the payments and posts the receipts to the cash receipts ledger. Amounts billed by the jailer are not compared to cash receipts to ensure that all amounts billed are collected.

Cause: There is no policy or procedure to ensure coordination between the treasurer and the jailer.

Effect or Potential Effect: Amounts billed could remain uncollected, resulting in lost revenue for the county.

Recommendation: We recommend that a procedure is implemented to ensure that cash receipts are matched to amounts billed and that either the treasurer or the jailer be made responsible for ensuring that all amounts billed are collected.

County judge/executive's response: In FY 11/12, the Treasurer sends the Jailer monthly reports itemizing all receipts received for the month. The Jailer then reviews that list and notifies anyone unpaid.

County jailer's response: As of July 1, 2011, we sent invoices to treasurer's office. Then county treasurer can match check to invoice.

This report, in its entirety, can be accessed on the Internet at the following site: [here](#).

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